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SUBJECT: PRESIDENT KABILA TURNS DOWN 2010 BUDGET

REF: 09 KINSHASA 934; 09 KINSHASA 1112

11. (SBU) Summary: On December 31, President Joseph Kabila rejected the draft 2010 budget and sent it back to Parliament for revisions. One likely reason behind the rejection is that Kabila wants to control spending in order to reach the completion point of the Heavily Indebted Poor Country (HIPC) debt-relief program. The challenge for Kabila is to both meet the pressing socio-economic needs of the country and keep spending within reasonable limits. End summary.

Background

12. (U) In early October 2009, GDRC's draft 2010 budget, totaling USD 5.3 billion, was submitted to Parliament (ref A). While drafting the 2010 Budget, MPs took into account the recovery of the world economy after the financial crisis and ongoing GDRC reforms in the area of good governance and public financial management. They decided to increase the budget from USD 5.3 to 6 billion because they found potential additional financial resources from the mining and telecommunications sectors. It is worth mentioning that the 2010 budget considered certain mandatory expenditures, like salary payments, which have to be made regardless of the amount of revenues collected. The inability to collect projected revenues would compel the GDRC to print money, which would seriously undermine macroeconomic stability.

13. (U) The National Assembly's (lower House of Parliament) Economic and Financial Committee reviewed and increased the proposed amount of the budget to USD 6 million on December 2. On December 15, the Senate's Economic, Financial and Good Governance Committee reached consensus with the National Assembly and approved it. The Parliament then sent the USD 6 million budget to Kabila for his final approval and signature. However, Kabila rejected it and returned it to the Parliament for revisions. Reaction from the Parliament has been mixed. Opposition party members immediately denounced the budget rejection and its "anti-social" spending policies promoted by the IMF and WB. Nevertheless, President Kabila is counting on his absolute political majority within Parliament to keep spending within reasonable limits in the 2010 budget.

14. (SBU) The Vice President in charge of Economy and Finance at the National Assembly Jean Lucien Bussa explained to Econoff on January 7 that the reason behind the refusal was that the budget

should be revised to include new developments of DRC negotiations with the World Bank and IMF around HIPC debt relief. The Principal Adviser to President Kabila, Rahael Luhulu, added that the draft budget contained some "inconsistencies" which need to be rectified. (Note: He did not specify what the "inconsistencies" were. End note.) Both Bussa and Luhulu confirmed that the return of the budget to the Parliament was in compliance with the DRC Constitution. The budget will be re-examined when Parliament re-convenes on January 15.

Spending must be curbed

15. (SBU) President Kabila is trying to reign in government expenditures in order to maintain DRC's debt sustainability. For example, in October 2009, the GDRC reduced the amount of the Sino-Congolese minerals-for-infrastructure agreement from USD 9.2 billion to 6 billion (ref B) in order to secure IMF approval for a new three-year Poverty Reduction and Growth Facility (PRGF) program. The new PRGF program will allow the Paris Club group of official creditors to resume provisional debt relief and help pave the way for comprehensive debt relief (upon reaching the

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"completion point") under the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI). This debt relief will help alleviate DRC's official debt burden (estimated at USD 13.5 billion) and allow the DRC to allocate critically needed resources for poverty reducing program. On December 11, the IMF Board of Directors approved reinstatement of DRC's PRGF program.

16. (SBU) The GDRC must now concentrate on reaching the HIPC completion point. In order to do so, it must meet a number of "triggers," including maintaining macroeconomic stability and improving the public financial management and debt management systems. President Kabila will need to limit spending. In addition, real GDP growth should be at least 5.5 percent, the inflation rate should be limited to 12 percent by 2012, foreign reserves should be equivalent to at least 10 weeks of non-aid imports by 2012, and the foreign current account deficit (including grants) should be limited to 25 percent of GDP.

17. (SBU) Comment: The significance of President Kabila's refusal to sign the draft 2010 budget is unclear. Parliament routinely increases the GDRC budget based on unrealistic spending assumptions. On the one hand, it could be positive: Kabila is taking the IMF Program (PRGF) seriously and is actually working to control spending. He may have refused to sign the budget based on spending increases made by the Parliament to the GDRC's original draft budget (which had been drafted in close coordination with the IMF). On the other hand, this could potentially create a rift with Parliament or delay the implementation of the budget/regular spending, since the DRC's fiscal year begins on January 1. Post will continue to closely monitor developments concerning the FY 2010 budget as well as the impact of its roll-out and whether it at the same time addresses the country's enormous economic and social development needs and keeps spending within reasonable limits. End comment.
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